AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche, LLP	Report to Management for the Year Ended 06/30/04 (11/15/04)	Fiscal Services	1. As a result of our management letter comment from the 2003 and 2002 audits, Investment Accounting developed a reconciliation of the Master Custodian Cash Control general ledger accounts that was performed over the course of the 2003-2004 fiscal year. However, at June 30, 2004, there were balances that remained in the account that were not specifically identified and resolved by management. Since Investment Accounting asserts that the cash control should be a pass through account, there is an expectation for a zero balance. Therefore, it is imperative that all activity that runs through this account be specifically identified and reconciled on a timely basis. At June 30, 2004, Investment Accounting was unable to provide adequate identification and explanation of the $237M cash control account balance. Investment Accounting should establish a standard, repeatable, auditable, and meaningful process for reconciling the amounts posted to the cash control account. Specific transactions should be identified and grouped together by function and reconciliation should be performed on amounts that remain in the account at period end, including explanations for the status of such transactions. Amounts without support should be investigated and written-off when appropriate on a timely basis. This is an updated comment from the years ended June 30, 2002 and June 30, 2003.	COMPLETE. Fiscal Services concurs with the recommendation. A cross functional project team has been established and is being led by the Internal Audits staff. The focus of the project team is to review all journal entries that post to the Cash Control accounts in PeopleSoft. The conclusion of this project team is to have established a standard, repeatable, auditable and meaningful process for reconciling the Cash Control accounts down to a portfolio level. The project team made a recommendation to Executive staff in February 2005.

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Management for the Year Ended 06/30/04 (11/15/04) *(continued)*	Fiscal Services/ Member Services	2. On a monthly basis the Member Services Division produces a report (CRB240) that summarizes the receivable activity (new receivables initiated, payments, etc.). Fiscal Services uses this report to record the receivable balance. During the 2003 and 2004 audits, we noted there was no reconciliation being performed between the accounts receivable detail report and the receivable amount recorded in the general ledger. As of June 30, 2003, there was a $44M variance between the detail and the general ledger. As of June 30, 2004, the variance was $89M. CalPERS was unable to identify or provide an explanation for this variance. Additionally, due to time lags in the final closing of the SCBA accounts, the 2003 year-end general ledger did not reflect the June 2003 activities while at the 2004 year-end, the general ledger did not reflect the May and June 2004 activity. As a result, audit adjustments had to be recorded to properly reflect activity for two periods. An Accounts Receivable Detail report should be run at least quarterly to reconcile the receivable balance per the report to the CRB240 and to the general ledger control account. The detail report should be reviewed by the Member Services Division to identify and resolve any unusual items or accounts. Additionally, Fiscal Services should coordinate the closing process with Member Services to post the activity in the appropriate accounting period. This is an updated comment from the year ended June 30, 2003.	COMPLETE. Fiscal Services concurs that the closing process should be coordinated with Member Services to post the activity in the appropriate accounting period. Fiscal Services will post a year-end accrual if the SCBA report CRB240 is not available at year-end closing. Please note that SCBA must wait for the Contribution Reporting System (CRS) to close a business month before SCBA can produce report CRB240. Member Services and Fiscal Services have been working to resolve the discrepancies between the CRB240 Report and the SCBA Ad Hoc report. From this point through the 2004/2005 year-end closing processes, the staff in the Member Services Division is continuing to work with staff from Fiscal Services and Information Technology Services to determine what is needed to reconcile the SCBA receivable balances for the receivable amount recorded in the General Ledger, such as: ➢ identifying and fixing system(s) problems that could be creating the discrepant information on the reports; ➢ scheduling meetings and JAD sessions for February/March 2005 to discuss and finalize the business requirements for the Service Request to create the formal report; etc.

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Management for the Year Ended 06/30/04 (11/15/04) *(continued)*	Member Services	3. During the testing of certain accounts within the SCBA system, we noted certain delinquent accounts that had not been investigated on a timely basis and certain other accounts that had been established with an incorrect number of installment payments. Aging reports should be run and reviewed periodically. Past-due accounts should be investigated and resolved. Review and signoff should be performed on initial recording to ensure each individual member accounts are properly recorded within the SCBA system. The individual who performs the review should be someone other than the staff responsible for the initial recording of the accounts. This is an updated comment from the year ended June 30, 2003.	COMPLETE. Member Services Division currently has a system generated delinquent/aging report that is used by staff. The SCBA system search criteria are by agency only; the system does not have a feature that will allow staff to create a search by the number of days delinquent. A Service Request was submitted to ITSB requesting modifications to the delinquent report to assist staff in identifying delinquent member accounts. Staff has significantly reduced the number of delinquent accounts from 4,300 to 2,800 this past year and will continue to emphasize collection of delinquent accounts. The EMBARC project focuses on increasing collection efforts. Since the SCBA system is a “real-time” transaction process, MBSD is developing ways to “spot” check the work completed by the SCBA staff (i.e., looking at samples of completed/outgoing work; reviewing screen prints; validating procedures; etc.) to ensure accurate recording of member accounts in the system.

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Management for the Year Ended 06/30/04 (11/15/04) *(continued)*	Fiscal Services	4. Contributions for SPOFF and SCPF are recorded by Fiscal Services on a cash basis, rather than on an accrual basis. As a result, Deloitte & Touche proposed audit adjustments to record the funds on an accrual basis. To comply with generally accepted accounting principles, Fiscal Services should record all contributions on an accrual basis. If the contributions have not been received by the Funds at period end, an accrual should be posted to accrue for the estimated contribution amounts.	COMPLETE. Fiscal Services concurs with the recommendation. Contributions will be accrued at year end for SPOFF and SCPF.
		Fiscal Services	5. Three of the IRC 457 Plan's investment portfolios (SK50, SK51, and SK52), included in the CalPERS financial statements, share a portfolio as a separate class of shares with the Department of Personnel Administration Savings Plus Program, which are not included in the CalPERS financial statements. For each of these portfolios, State Street Bank reports all activity in the aggregate and then provides information separating out the investment holdings between the IRC 457 Plan shares and the Savings Plus Plan shares. Due to limitations in the information provided by State Street, Fiscal Services allocates certain balances to IRC 457 Plan based on its percentage of the total Net Asset Value of the portfolio. As a result, several audit adjustments were made to the IRC 457 Plan to finalize the investment balances during the 2003 audit. During the 2002/2003 fiscal year, the SK68 portfolio was setup as a mirror portfolio to the SK51 portfolio and included only those activities related to the shares in the IRC 457 Plan.	COMPLETE. We concur with this recommendation, and have directed State Street to set up two new portfolios. One will report the SK52 S&P 500 activity for the Savings Plus Program and the other portfolio will report the CalPERS 457 Program activity. The current SK52 portfolio will become a composite of the two portfolios. These portfolios have been implemented March 1, 2005.

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Management for the Year Ended 06/30/04 (11/15/04) *(continued)*	Fiscal Services	5. (continued) We understand that in August 2004, the SK50 and SK51 portfolios were terminated by the Department of Personnel Administration and are no longer managed by CalPERS. However, we continue to recommend that a similar mirror portfolio of SK52 be established to include only the IRC 457 Plan's share of the investments and related activity. All portfolio activity should be recorded based on the mirror portfolio and then considered in relation to the information received from State Street related to the shared portfolio. This is an updated comment from the year ended June 30, 2003.	

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Management for the Year Ended 06/30/04 (11/15/04) *(continued)*	Office of Long Term Care	6. There was no independent actuarial valuation performed for the Long Term Care Fund in the 2003/2004 fiscal year. Instead, the Long Term Care Group performed the actuarial analysis, which was not completed until the end of October. Due to the delay in receiving the valuation, management did not have sufficient time to review the analysis and conclude on the reasonableness of the assumptions. This also created delays in the completion of the audit and financial statements. An external and independent actuarial valuation should be completed on an annual basis for the Long Term Care Fund. Due to the significance of the liability amount, the valuation should be completed in a timely period so that management has adequate time to review the results and follow up on any questions.	COMPLETE. During the 2003/2004 fiscal year, Tillinghast-Towers Perrin (TTP) withdrew from their actuarial consultant contract with CalPERS due to the “unlimited liability” clause. Subsequent to TTP’s withdrawal, CalPERS developed and distributed a RFP for an actuarial consultant contract. Three firms submitted responses to the RFP and Milliman USA was determined to be the successful candidate. Lengthy negotiations were conducted with Milliman but the negotiation were terminated when it became clear that the parties were unable to adequately address issues related to the unlimited liability clause of the CalPERS basic contract provisions. This matter has been referred to CalPERS’ Legal Office for review and resolution. The Program will conduct another search and issue a RFP for an actuarial contract once this contracting provision has been resolved. Due to the requirement of the Board that an annual valuation for the Program be conducted, management decided to contract with LTCG actuarial staff to meet this requirement until the contract issues are resolved.

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Management for the Year Ended 06/30/04 (11/15/04) *(continued)*	Office of Long Term Care	7. The actuarial valuation for the Long Term Care program was performed by the Long Term Care Group during the 2003/2004 fiscal year. The underlying assumptions in developing the actuarial valuation were not reviewed by CalPERS' internal actuaries. CalPERS should consider the following in reviewing the annual actuarial valuation report: **A. *Pricing and Valuation Linkage*** As in prior years, the report indicates that if the valuation results in either a surplus or deficit of 5% or more of future premiums, the CalPERS Board of Administration policy will consider further rate actions to bring the program back into balance. One problem with linking the valuation results with potential rate increase actions is that the valuation should appropriately include margins for conservatism or provisions for adverse deviation (PAD). The baseline valuation is derived using best estimate assumptions and does not appear to include margins for conservatism. However, for valuation purposes it is normally appropriate to include such margins in projecting the future liabilities of the program. Under GAAP standards for insurance companies, for example, benefit reserves for LTC plans are required to contain explicit PAD. We would recommend that future valuations for financial reporting purposes be performed independently from the assessment of premium adequacy. Rather than changing the current criteria for rate actions (i.e. ± 5% rule) to accommodate a more conservative valuation approach,	***A. Pricing and Valuation Linkage*** COMPLETE. Subsequent to the annual valuation (2003/2004FY) provided by LTCG to the Board in November 2004, LTCG actuarial staff and Program staff presented at the December 2004 meeting analyses and actuarial projections that more fully recognize provisions for adverse deviations (PAD) and a best estimates view of such. The Program will disconnect the linkage between pricing and valuations going forward.

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Managemen t for the Year Ended 06/30/04 (11/15/04) *(continued)*	Office of Long Term Care	7. **(continued)** **A. *Pricing and Valuation Linkage*** (continued) it would be preferable to use separate projections, such as using best estimate assumptions, for rate management purposes. The valuation itself should be performed without regard to the resulting impact on premium rate. ***B. Valuation of New Business*** Related to the above discussion regarding the uncoupling of the pricing and valuation projections, we would suggest that future valuations not include separate projections for future new business, as that does not directly impact the current financial statements.	***B. Valuation of New Business*** COMPLETE. The Program will discontinue the use of future new business in the development of the annual valuation. However, given the clear track record for the Program and limited duration of the application period, Program staff will still request that one of the analyses prepared by the outside actuaries will include the estimated impact of the new enrollees.

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

<table>
<tr><th>Auditor</th><th>Audit Scope/ (Report Issue Date)</th><th>Responsible Division(s)</th><th>Finding Number and Description</th><th>Comments</th></tr>
<tr><td>Deloitte & Touche LLP</td><td>Report to Management for the Year Ended 06/30/04 (11/15/04) (continued)</td><td>Office of Long Term Care</td><td>7. (continued)

C. Sensitivity Scenarios

In reviewing the LTC valuations from year to year, it is readily apparent that seemingly small changes in the actuarial assumptions can have very large impacts on the valuation results. For example, the reduction in the assumed investment earnings rate from 7.00% to 6.75% reduced the valuation surplus by approximately $119 million, or nearly 5% of future premiums.

The 2004 valuation report includes one alternative valuation scenario that includes margins for adverse deviations. The valuation results with and without PAD in the actuarial assumptions vary dramatically as follows (in millions):

<table><tr><th>Assumption Basis</th><th>Surplus</th></tr><tr><td>Without PAD (Best Estimate)</td><td>$1.3</td></tr><tr><td>With PAD (More Conservative)</td><td>($613.0)</td></tr></table>
The valuation report indicates that there are three assumptions to which margins were added to calculate the most conservative liability estimates:

1) Projection period increased from 40 years to 50 years, 2) Reduction in morbidity and mortality improvement from 1% to 0.5% through 2020, and 3) Investment earnings rate reduced from 7.00% to 6.75%.

The impact of these three more conservative assumptions decreased estimated program surplus by $614.3 million as of June 30, 2004.</td><td>C. Sensitivity Scenarios

COMPLETE. The Program will include in future valuations alternative scenarios involving different levels of morbidity, lapse rates, expenses, and interest rates with each component variation shown separately. This was the case with the material presented to the Board at the December meeting.</td></tr>
</table>

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Management for the Year Ended 06/30/04 (11/15/04) *(continued)*	Office of Long Term Care	7. (continued) For future valuations, we would recommend that alternative scenarios be developed involving different levels of morbidity, mortality, lapse rates, expenses and interest rates, with each component of the variation shown separately. We noted, for example, that there was no sensitivity test included in this year's valuation related to changes in voluntary lapse rates. It is important that the users of the report understand the sensitivity of the valuation results to the underlying assumptions, and that in many cases these assumptions involve a fair degree of actuarial judgment. This is not unique to CalPERS, but rather is endemic across the LTC industry, which is not yet at full maturity in terms of credible experience.	

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Management for the Year Ended 06/30/04 (11/15/04) *(continued)*	Office of Long Term Care	7. (continued) ***D. Investment Earnings Rate*** The assumed investment earnings rate is 7.00% in the best estimate scenario and 6.75% in the more conservative scenario. We noted that the 7.00% assumption is unchanged from the June 30, 2003 valuation performed by Tillinghast and the December 31, 2003 valuation performed by the LTCG. We also noted that the current report indicates that between December 31, 2003 and June 30, 2004 assets did not grow as projected at year-end, indicating that this may potentially be an aggressive assumption. The LTCG indicated that the investment earnings rate assumption came from CalPERS program staff and is the last value approved by the Board. In view of the sensitivity of the valuation results to this assumption, we believe a formal process should be implemented to periodically update and document the appropriate valuation interest rate assumption. The timing should be no less frequently than once a year to at least coincide with the June 30 valuation.	***D. Investment Earnings Rate*** COMPLETE. Program management and staff are in the process of working with CalPERS investment management and staff along with CalPERS investment consultants to set up a timetable and process of periodically evaluating the investment asset mix, their projected returns and how adjustments to the same can add stabilizing mechanisms to the Public Employees' Long-Term Care Trust Fund. Alternative investment scenarios will be presented to the Board as part of the Board's ongoing oversight of the Program.

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Management for the Year Ended 06/30/04 (11/15/04) *(continued)*	Office of Long Term Care	7. (continued) ***E. Cash Flow Testing*** The previous valuations performed by Tillinghast included cash flow testing projections to assess the adequacy of the assets supporting the liabilities related to potential future new-money investment earnings scenarios. The current valuation does not include such an assessment. Cash flow testing is required by state regulators for most LTC insurance programs and can be an integral part of the valuation process. Because LTC involves such long duration coverage, it is important that the assets be appropriately matched to the liabilities they are backing. Various future economic scenarios to project have been prescribed by the regulators, and certain criteria must be met in order to “pass” the cash flow tests. Failed tests can indicate the need to strengthen reserves. We would recommend that CalPERS reinstitute cash flow testing for the LTC program for valuations in future years.	***E. Cash Flow Testing*** COMPLETE. CalPERS will reinstitute cash flow testing to all future Program annual valuations.

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Management for the Year Ended 06/30/04 (11/15/04) *(continued)*	Fiscal Services	8. As a result of our management letter comment from 2003, CalPERS performed a mid-year close for the first time in the 2003/2004 fiscal year. We reviewed the mid-year closing process and related financial statements as of 12/31/03, noting the following observations:	This was CalPERS first year of completing a mid-year close that was performed in partnership with Deloitte & Touche. Fiscal Services has made improvements and enhanced the financial reporting process and will continue to do so each year.
			1) Accounts that required accrual adjustments were not consistently treated during the mid-year close. The accountants stated that certain accruals were not recorded because information for the accrual is only available at year-end or it was not time efficient to complete the accrual amount. The mid-year close should be treated in a manner similar to the year-end close in that all accruals should be recorded to the mid-year financial spreadsheets. If amounts are unknown, Fiscal Services should record its best estimates based on available information. By recording all accruals, the financial statements will closely resemble the true financial state of each CalPERS fund and allow management to make informed and relevant decisions.	1) COMPLETE. Fiscal Services will continue to run a mid-year trial balance and adjust the General Ledger balance with manual mid-year accruals on spreadsheets. The adjusted totals will be used to prepare a mid-year income statement and balance sheet for each fund. All accruals will be documented for audit purposes.
			2) The explanations for financial statement fluctuations in excess of management's established threshold were inadequate and not descriptive. For example, many of the fluctuations were documented as "cash flow" or "fair market value". In addition, we noted that some fluctuations had incorrect explanations and when inquiring with the fund accountants, a different explanation was provided.	2) COMPLETE. More descriptive explanations will be provided for account balances with fluctuations in excess of the established threshold. Documentation will be maintained to support explanations.

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Managemen t for the Year Ended 06/30/04 (11/15/04) *(continued)*	Fiscal Services	8. (continued) 2) (continued) Detailed explanations should be provided for account balances with fluctuations in excess of the established threshold. Critical analysis of each account fluctuation will allow the accountants to better understand the nature of each account and determine if there any possible material misstatements. Additionally, explanations should be investigated to determine that they are accurate and reflect the existing business conditions. For example, if contribution revenues increased by 200% and membership increased by 25%, it would not be proper to state that the increased membership caused the increase in contributions. The accountants should quantify the changes in known fluctuations and then investigate all other variances not explained. 3) Fiscal Services did not prepare a consolidated PERF trial balance as it only prepared individual trial balances for each of the funds under PERF. As such, no analysis was performed on the consolidated amounts. Fiscal Services should prepare a consolidated trial balance for all of the PERF sub funds. As the consolidated amounts are presented in the financial statements for PERF, analysis should be performed on these amounts. In addition, fluctuation explanations should be provided on the consolidated basis.	3) COMPLETE. A consolidated trial balance will be prepared for all PERF sub funds. A fluctuation analysis will be performed on the consolidated PERF trial balance for those general ledger accounts in excess of the established threshold.

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Managemen t for the Year Ended 06/30/04 (11/15/04) *(continued)*	Fiscal Services	8. (continued) 4) When performing the fluctuation analysis, Fiscal Services created comparative trial balances for income statement accounts that compared the six months ended December 31, 2002 to the six months ended December 31, 2003. Some of the amounts from 2002 were either incomplete or were not able to be relied on as accruals were not recorded during that time period. As such, this diminished the value of the fluctuation analysis. To increase the value of the fluctuations analysis, Fiscal Services should perform the income statement comparison based on the full prior fiscal year of activity compared to the annualized interim amounts. Because amounts at each fiscal year-end have been audited, they should be used as the basis for all financial statement analysis. 5) No financial statements were prepared as part of the mid-year closing process. As such, management was unable to review the interim financial amounts. Draft financial statements should be generated for all funds during the mid-year close, similar to year-end. Although Cash Flow Statements, footnotes, and MD&A need not be created during the mid-year close, balance sheets and income statements should be generated and provided to executive management for their review.	4). COMPLETE. Fiscal Services will perform the income statement comparison based on the full prior fiscal year of activity compared to the annualized interim amounts. They will be used as the basis for all financial statement analysis. 5) COMPLETE. A draft balance sheet and income statement will be generated for all funds during the mid-year close.

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Management for the Year Ended 06/30/04 (11/15/04) *(continued)*	Executive	9. Certain CalPERS divisions external to Fiscal Services are responsible for generating accounting data that is used to record entries in the general ledger. However, we noted instances in which transactions that would affect the general ledger were not communicated to Fiscal Services for proper recording and analysis. As such, multiple adjustments were proposed and booked to rectify these communication breakdowns. To enhance the communication between Fiscal Services and the other divisions responsible for generating accounting related transactions, management should stress the importance of communicating to Fiscal Services any business changes or transactions that could have a related financial effect so that proper analysis and adjustments can be performed by the accountants. Enhanced communication will increase the reliability of the financial records and allow management to perform a better financial analysis.	COMPLETE. Existing policies and processes that address communications with Fiscal Services will be reviewed and revised to assure that any changes or transactions that have a related financial effect are communicated expeditiously to Fiscal Services. This will be provided to all CalPERS divisions to assure all are aware of the imperativeness of compliance.

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Management for the Year Ended 06/30/04 (11/15/04) *(continued)*	Fiscal Services	10. CalPERS does not have a process or policy in place for the review of unusual or non-standard journal entries. Currently, each accountant is responsible for posting all journal entries for their fund (both standard and non-standard). Management relies on the fluctuation analysis performed during the mid-year and year-end close to identify any unusual items or investigate unusual variances. Additionally, there is no formal journal entry template as each accountant uses a different form. We recommend that CalPERS create a standard journal entry form to be used for each journal entry. This form should include the account number, description of the account, the amount, the reason for the entry, preparer's name, and reviewer's sign-off (if appropriate). Each journal entry should have the proper supporting documentation attached to the standard form. Management should implement a policy that requires management approval of non-standard journal entries, which are journal entries that are not normally posted each month. This policy should specifically document the types and amount of journal entries that will be considered non-standard. Management review over journal entries will ensure that only authorized and valid journal entries are posted to the General Ledger. Management oversight will strengthen the validity of the GL and further deter any material misstatement due to error or fraudulent financial reporting.	COMPLETE. Fiscal Services currently complies with the standard journal entry recommendation. The PeopleSoft Accounting System contains fields for the account number, account description, amount, and the reason for the entry. The Journal ID of each GL entry is descriptive of the source document and all supporting documentation is maintained in the division. Fiscal Services will develop criteria for non-standard journal entries and will implement a process that requires supervisor approval on non-standard journal entries that are material to each fund. The definition of a non-standard journal entry is those journal entries that are not normally posted each month.

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Management for the Year Ended 06/30/04 (11/15/04) *(continued)*	Fiscal Services	11. Fiscal Services does not have individuals who are solely responsible for financial reporting. As a result, during the preparation of the basic financial statements and the related MD&A sections, the responsible accountant was solely focused on finishing the report rather than reviewing and improving the report. During Deloitte & Touche's review of the financial statements and related schedules, we noted numerous errors that required correction. CalPERS should designate appropriate individuals for the responsibility of financial reporting. They should be responsible for preparing the financial statements, ensuring that the reported amounts properly agree to the General Ledger, verifying that all footnote amounts have the proper supporting documentation, and that all relevant GASB and FASB pronouncements are properly applied and disclosed in the footnotes. Additionally, when the reporting individuals are not working on the financial statements, they should be preparing for the next year's report by updating the fund descriptions and investigating new accounting pronouncements. By creating a financial reporting division, CalPERS will further enhance the value of the CAFR report and continue to obtain the GFOA Certificate of Achievement for Excellence in Financial Reporting.	COMPLETE. Fortunately, in this era of limited resources a full time accountant is currently assigned to financial reporting. This person performs the tasks recommended by Deloitte & Touche. Additionally, Fiscal Services assigns a second full time accountant, a part-time manager, and clerical support to the annual financial report and audit project. Applying these resources to the annual process has yielded quality award winning reports, unqualified audit opinions, and meeting the time frame expectations of the Finance Committee and the State Controller's Office. We agree with Deloitte & Touche that significant attention should be devoted to financial reporting and we are making that commitment. The errors that Deloitte & Touche had uncovered in their preliminary reviews are typical of any first draft report that is prepared on a very tight time frame. Most of the mentioned errors were simultaneously discovered by staff and successive drafts became increasingly accurate. In 2005, Fiscal Services intends to gather additional help and form an audit and financial reporting team. Team members will have specific edit and validation responsibilities that will mitigate the discrepancies in first draft versions of the financial report.

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Management for the Year Ended 06/30/04 (11/15/04) *(continued)*	Fiscal Services	12. Accounting personnel are assigned the responsibility for reconciling accounts on a monthly basis. Although these reconciliations are being performed, certain reconciliations need improvement to increase their effectiveness. For example, we noted certain accounts where the supporting detail did not agree to the general ledger or amounts that were double accrued. As these variances were not caught by the accountant, audit adjustments were proposed and booked to correct the unreconciled errors. Fiscal Services management should emphasize the need for the proper performance and critical analysis of reconciliations.	COMPLETE. Reconciliations are being performed to provide assurance that the supporting detail agrees to the general ledger. Fiscal Services is currently in the process of bringing all reconciliations to a current status. Fiscal Services will emphasize to staff the need for proper performance and analysis of reconciliations.
			13. Fiscal Services uses a fixed number of general ledger accounts to record accounting activity. Due to the lack of flexibility with these accounts, dissimilar transactions have been recorded in the same account. As such, this makes account analysis, reconciliation, and investigation difficult due to the various transactions recorded in each account. Fiscal Services should create new general ledger accounts for each fund so that only one type of transaction is recorded in the account. This will allow accounting personnel to perform more effective reconciliations and fluctuation analysis as the comparisons will be more meaningful.	COMPLETE. Fiscal Services concurs that that only one type of transaction should be recorded in the general ledger account and dissimilar transactions should not be recorded in the same account. Fiscal Services believes the current chart of accounts is very flexible and does not see the need to create new general ledger accounts. It is also industry practice to use a common chart of accounts for all funds. Funds can then be easily analyzed independently. Fiscal Services follows the guidelines provided in the State Uniform Codes Manual (UCM) as the primary scheme for CalPERS' chart of accounts.

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Management for the Year Ended 06/30/04 (11/15/04) *(continued)*	Actuarial and Employer Services	14. The CalPERS' Actuarial and Employer Services is responsible for performing valuations of the CalPERS' defined benefit plans. Such valuation reports are performed on an annual basis. Actuarial and Employer Services should consider the following recommendations in their completion and review of the annual actuarial valuations:	
			• The Judges Retirement System is funded on a pay as you go method rather than on an actuarially sound method. We would recommend monitoring this on an ongoing basis.	COMPLETE. The decision as to whether to fund the system in a manner that is actuarially sound or continue to fund the system on a pay-as-you-go basis can only be made by the California Legislature. It is not within the authority of the CalPERS Board. Future actuarial valuations of the system will include a section containing the information necessary for the State to comply with GASB financial reporting rules.
			• The Volunteer Firefighter's actuarial value of assets has been reset to a fixed amount. The expected methods to be used in the future should be described. Documentation should be developed and included in the report for justification of this process.	COMPLETE. The asset smoothing method used in the actuarial valuation of the Volunteer Firefighters Length of Service Award System was fresh started at 110% of the market value of assets as of June 30, 2003. In future actuarial valuations the regular asset smoothing method will be used and the actuarial value of assets will fluctuate between 90 and 110% of the actuarial value of assets. This was documented in the valuation report.

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Management for the Year Ended 06/30/04 (11/15/04) *(continued)*	Fiscal Services	14. (continued) • The State & School actuarial valuation does not make any assumptions for future active employee movements to Tier 1. Documentation should be developed and included in the report for justification of this expectation.	COMPLETE. As stated on page 9 of the June 30, 2003 actuarial valuation report of the State and Schools plans, we have made no assumptions about Tier 2 members electing to transfer to Tier 1 in the future. Supplemental calculations have shown that the impact of making an appropriate assumption would not materially change the results of the actuarial valuation.
			15. Accounting personnel are assigned the responsibility for specific reconciliations to be performed on a monthly basis. If the assigned accountant is on leave or is unable to complete the reconciliation, the account is not reconciled. To ensure that errors are identified and reconciling items are resolved timely, all reconciliations should be performed on a regular basis. Each reconciliation process should be assigned both a primary and secondary preparer. The secondary preparer would be responsible for performing the reconciliation on a rotating surprise basis and when the primary preparer is unavailable. This is an updated comment from the year ended June 30, 2003.	COMPLETE. We have taken steps to ensure that certain staff be cross trained to serve as a backup person for the primary preparer of reconciliations. We have also put into place a system of review for our reconciliations along with a sign off by the reviewer. We will continue to implement this recommendation.

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Deloitte & Touche LLP	Report to Managemen t for the Year Ended 06/30/04 (11/15/04) *(continued)*	Information Technology Services	16. Certain instances were noted where password settings and related parameters were not in compliance with the requirements included in the CalPERS' Security Manual. In order to help ensure a strong information security environment, password confidentiality and appropriateness is essential. Without periodic changes and effective password parameters, it is easier for unauthorized users to guess the password of an authorized user and access the system. CalPERS should review the security settings for the database to ensure they are in compliance with their security policies. CalPERS should consider the following for the various systems:	COMPLETE. We agree with your findings and recommendations. As of January 10, 2005, Information Technology Services Branch has made the necessary changes to ensure we are in compliance with our security policies. The scope of changes consists of the following items:
			1) General and administrative user passwords should be set to expire every 60 days.	1) General user passwords and administrative user passwords are set to expire 60 days per our security policies.
			2) Users should be locked out after 3 attempts.	2) Users would be locked out after 3 failed attempts.
			3) Password history should be maintained for at least the last 3-4 passwords.	3) Password history maintained for the last 10 passwords (20 for the PeopleSoft financial system). This exceeds your 3 to 4 passwords recommendation.
			4) Password length should be at least 6-8 characters long. This is an updated comment from the year ended June 30, 2003.	4) Password length will be required to be at least 6 characters long (8 for the PeopleSoft financial system).

AGENDA ITEM 5
AUDIT RESOLUTION STATUS
TRACKING REPORTS - FINANCIAL AND OTHER EXTERNAL AUDITS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2005

Auditor	Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Comments
Bureau of State Audits	California Bureau of State Audits Report 2004-123: Narrow Network (3/29/05)	Health Benefits Branch	1. To ensure that its decisions are in the best interest of CalPERS members, CalPERS should require its Health Benefits Branch to staff to evaluate fully the findings and recommendations of third-party reviews and present their results to its Board of Administration and Committee.	COMPLETE. CalPERS staff continues to evaluate fully the findings and recommendations of third-party reviews. Further, CalPERS has formalized criteria for analyzing and reporting on third-party reviews to ensure the criteria are consistently applied by staff. The formalized criteria have been completed and implemented.
Bureau of State Audits	California Bureau of State Audits Report 2004-003: Pharma-ceuticals Purchasing (5/26/05)	Health Benefits Branch	1. CalPERS should continue to explore various contract negotiation methods that would yield more rebates for the drugs it purchases and that would allow it to achieve greater disclosure requirements to verify that it is receiving all of the rebates to which it is entitled.	IN PROGRESS. CalPERS will continue to assess the HMO's performance and management as part of our recurring rate analysis. For the Pharmacy Benefit Manager, we issued a Request for Proposal in May 2005 specifically asking bidders to furnish detailed financial information, and included a proposed contract stating the respondent must agree to be a fiduciary to CalPERS regarding formulary management and clinical programs management. The contract has been awarded to a new Pharmacy Benefit Manager, and includes fiduciary responsibility, transparency and access to rebate, drug cost and utilization data. CalPERS will submit its one-year response to the Bureau of State Audits in May 2006, at which time this finding should be complete.